



Silver Hart MINES LTD.



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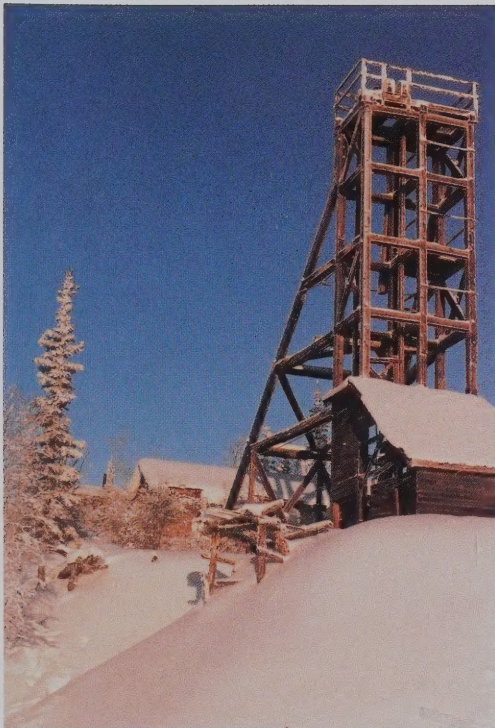
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CORPORATE PROFILE

Silver Hart Mines Ltd. was founded as an Alberta corporation in December, 1982. It operated as a private company until April, 1984 when it went public through the facilities of the Vancouver and Alberta Stock Exchanges. On January 2, 1985 it began trading on NASDAQ in the United States.

Since inception, the Company's strategy has been to maintain a small, highly professional team which can locate and stake or acquire gold and silver properties in Canada and bring them into production. Silver Hart currently holds and is actively exploring by underground methods a high grade silver property in the Yukon Territory (Hart silver property). It also holds and is exploring four large gold properties of the iron formation hosted type in the Bathurst Inlet area of the North West Territories and an important gold deposit near Snow Lake, Manitoba. Its land position in aggregate exceeds 172,000 acres. It is expected that production decisions for the Hart and the Snow Lake properties will be made in 1986, so that the Hart silver property can be brought into production in 1987 and the Snow Lake property in 1988.

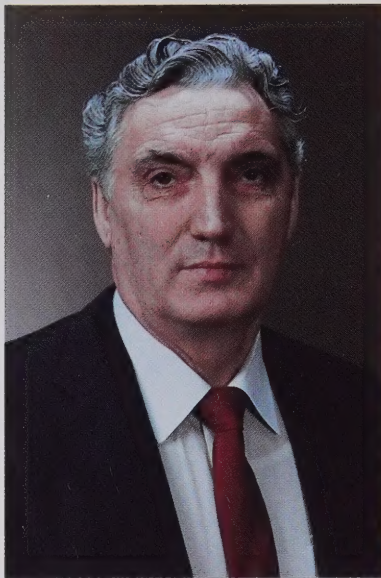
As of December 31, 1985 there were 5,420,470 common shares outstanding. During 1985, a total of 1,173,000 shares were traded on the Vancouver Stock Exchange and a total of 370,290 shares on NASDAQ. The trading symbol in Canada is SVM and in the United States is SVMHF.



Lucky Claims, view of the old Sunset Mine Headframe

FINANCIAL HIGHLIGHTS

	Years Ended December 31		
	1985	1984	1983
Total Assets	\$8,570,206	\$2,824,038	\$1,260,044
Cash; Term Deposits Less Operating Bank Loans	\$1,075,604	\$1,063,209	\$920,933
Funds Used In Exploration Development	\$4,716,839	\$1,111,490	\$317,973
Shareholders' Equity	\$7,106,343	\$2,367,715	\$1,205,982



Alvin Harter

TO THE SHAREHOLDERS

In the year ended December 31, 1985 Silver Hart made significant progress towards its goal of becoming a metal producing mining company. Our understanding of the potential of our main properties was increased through aggressive exploration programs, and underground work has begun at the Hart silver property. The marketplace recognized our expanding asset base with higher share prices, and we were able to finance nearly \$4,000,000 of exploration with a 10% increase in outstanding shares. Two major exploration programs were carried out; geological, geophysical and diamond drilling work at Pistol Lake, and geological, diamond drilling and underground exploratory work at the Hart silver property in the Yukon. At both sites results were excellent. Underground work at the Yukon property was pursued throughout the winter and will continue at least until mid-summer. By that time, a feasibility report will be completed and the mine will be ready for production.

PISTOL LAKE PROPERTY

At Pistol Lake, an aggregate of 18,143 feet of diamond drilling was carried out in 1985. Results of the program were very positive and established the presence of two isoclinically folded mineralized iron formations on the property. Gold values in both formations are associated with stratabound arsenopyrite and pyrrhotite mineralization. Visible gold was observed in many places within the mineralized zones.

The geological setting of the banded iron formation gold occurrences at Pistol Lake is very similar to that of the large ore bodies at the Homestake Mine in South Dakota and the Lupin Mine at Contwoyto Lake approximately 100 miles southwest of Pistol Lake. The 1985 drilling program investigated two of these occurrences, the 'F' and the 'G' Zones, each within separate iron formations with minimum unfolded strike lengths of 12,000 ft. each. The iron formation hosting the F Zone shows indication of a further extension of 8000 ft. south of Farney Lake.

The F Zone was investigated with 14 holes in late 1984 and a further 8 holes in 1985 tested it at approximately 300 ft. intervals for a total tested strikelength of 3400 ft. Numerous additional gold occurrences have been identified along the strike through surface mapping. The banded iron formation hosting the G Zone is poorly exposed or unexposed over most of its strikelength and was first drilled in 1985. The drilling showed that the mineralized horizons have capacity to produce significant widths and grades; intersections of 11.3 ft. carrying 0.536 oz. of gold per ton and of 24 ft. at 0.248 oz. of gold per ton, including a 12.5 ft. section grading 0.401 oz., were found in widely spaced holes.

The last two holes drilled, Nos. 30 and 31, were 1425 ft. and 1,369 ft. long respectively and showed that our interpretation of the G Zone structure is correct; both banded iron formation and a mineralized zone were present at the bottom of Hole 31. Hole No. 30 reached the capacity of the drill before encountering the iron formation. The Company's management is convinced that we have encountered a major gold deposit at Pistol Lake.

HART PROPERTY

A total of 50 diamond drill holes aggregating 12,000 ft. were completed in 1985 along with extensive geological mapping, prospecting and electromagnetic work. This work confirmed that the FM Zone is a northeast extension of the original TM Zone and established the presence of two additional zones. It allowed us to make decisions on upgrading the road connection to the Alaska Highway and beginning the underground exploration program.

Approximately 25 miles of all-weather road was completed to the site from the Alaska Highway and is being used to bring in equipment and supplies. The underground exploration program was begun in November and has proceeded well. The contract called for a 9' x 13' adit 30 ft. away from and parallel to the TM Zone, so that it could serve in the future as a haulage-way. The initial contract for 680 ft. of adit, crosscuts into the ore zone, and approximately 400 ft. of drifting in the TM ore zone has been completed, and work is continuing.

Raises are being driven in the ore to facilitate bulk sampling and to prepare for subsequent stoping. In the future, the crosscuts will be used as draw points for ore and the adit will become the haulage-way for the mine. Ore taken out is being stockpiled for milling sometime in the future.



Hart Silver Property, TM vein structure exposed in 401 South drift



Hart Silver Property, TM vein exposed in 401 South drift

SNOW LAKE PROPERTY

Silver Hart recently announced acquisition of a gold property located 1 mile from the town of Snow Lake, Manitoba, 75 miles east of Flin Flon, with ready access to excellent transportation and power facilities. It comprises 32 mineral claims aggregating 7300 acres, and is the Company's most important move since acquiring the Hart silver property in November, 1984.

Since 1981, exploration on the property has included 64,000 ft. of diamond drilling, resulting in 13 gold-bearing zones being outlined. The largest zone found to date is the No. 3 Zone which, as estimated by Hudson Bay Mining and Smelting Co., Limited, contains an ore reserve of 220,500 tons at 0.44 oz. of gold per ton to a depth of 400 ft. In the opinion of Silver Hart's geological staff, a similar tonnage at a similar grade is indicated by drilling over the depth interval from 400 to 800 ft. They feel confident that the combined proven and probable ore reserve on the No. 3 Zone to a depth of 800 ft. amounts to 560,000 tons at 0.31 oz. of gold per ton.

The Company and its Consultant believe that the known reserve of the No. 3 Zone ore body can support a 400 to 500 tons per day operation for 3 to 5 years at a grade of 0.31 oz. of gold per ton. The numerous other gold-bearing zones offer high potential for additional reserves, added mine life and/or a higher mill capacity. We believe that Snow Lake assures the Company of the opportunity to create a producing gold mine within 2½ years.

1986 WORK PROGRAM

At Pistol Lake, a detailed airborne electromagnetic survey is planned for all of the Bathurst Inlet properties as a first step, to be followed up with geological mapping, prospecting and geophysical work. Diamond drilling is expected to resume in August, with the objective of adding substantial reserves.

At the Hart property, we are moving ahead with further exploration which will lead to a Feasibility Report and a decision on going into production. If all progresses as planned, the property should be in production in the first half of 1987.

Plans for Snow Lake are now being formulated. We anticipate a sizeable diamond drilling program and a start on a decline in 1986, which would lead to a Feasibility Report in 1987.

CORPORATE

During 1985, the Company entered into option agreements with Ark La Tex Industries Ltd. for the Sunset Lake properties, and with Vanstates Resources Ltd. for the Warner Property. Both companies are based in Vancouver and in each case Silver Hart will continue to manage the exploration work.

At Sunset Lake, which includes the Bear and Lucky Claims, Ark La Tex is required to spend \$700,000 on the property over 3 years to earn 60%. At Warner, Vanstates must spend \$3,000,000 on the property over 4 years to earn 60% and also meet the cash payments due the original vendor of the property. At closing of the agreement, Vanstates reimbursed Silver Hart \$140,000 for cash payments already made.

These agreements are very beneficial to the Company; neither property is a top priority for Silver Hart but both have excellent potential and warrant sound exploration programs. We will manage the exploration work and, in the case of the Warner Property, will be able to share substantial support costs to Bathurst Inlet with resultant savings. If either or both properties make mines, Silver Hart will hold 40% without having been called on for exploration funds.

Our shareholder group is now approaching 600 in number; dispersed over most of the Canadian provinces and in the United States. We thank you for your support and confidence, and we believe that it will be well-rewarded.

ON BEHALF OF THE BOARD OF DIRECTORS,



Alvin Harter, President

EXPLORATION

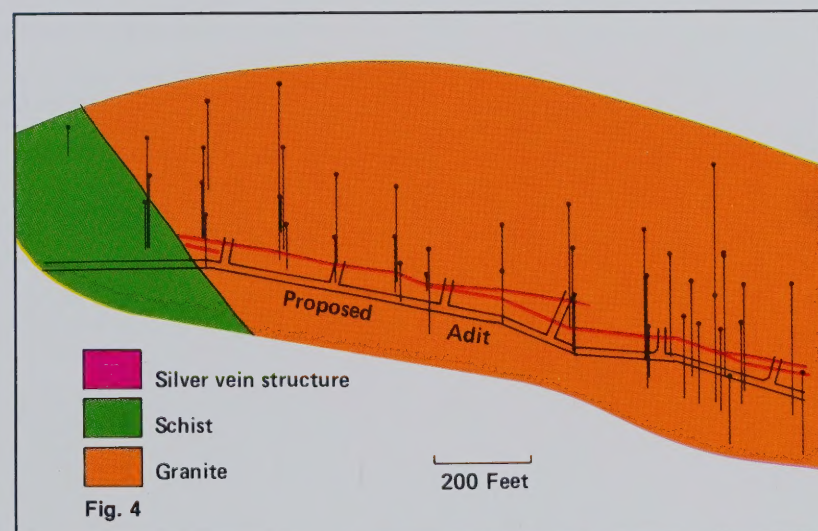
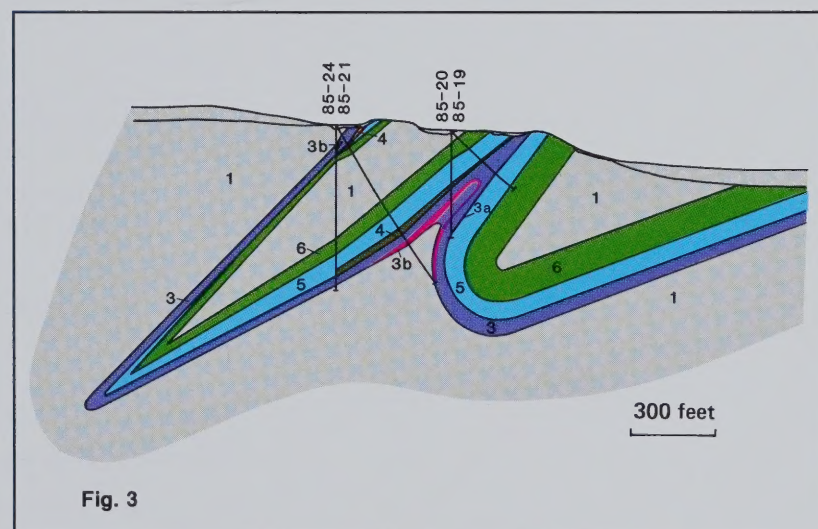
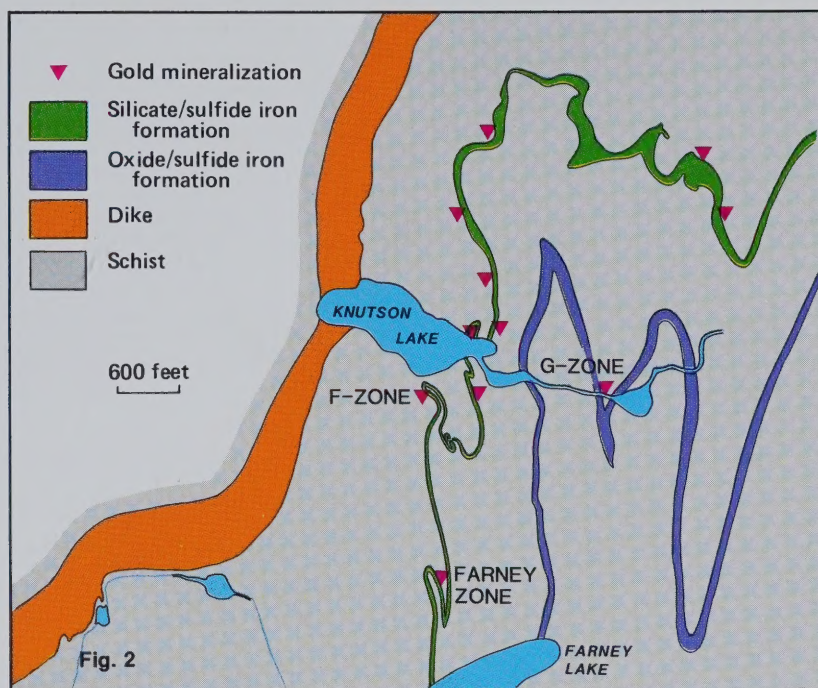
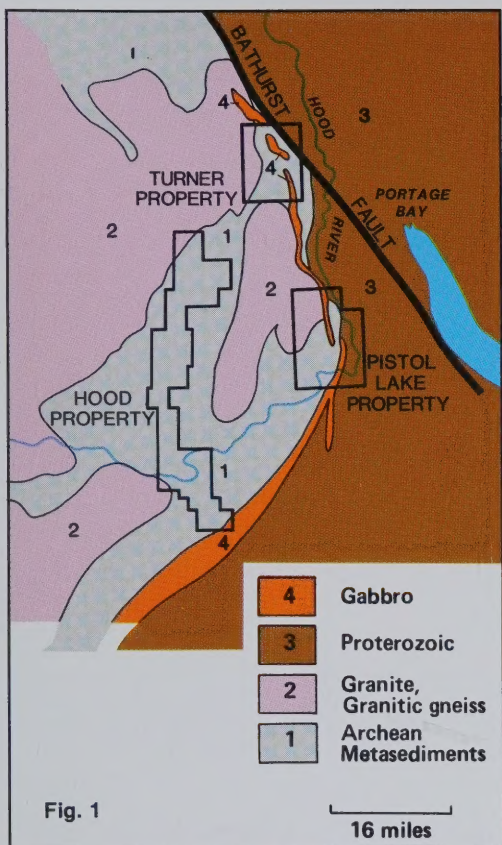
During the past year underground exploration commenced on the Hart silver property. In addition, four properties in the Northwest Territories and Yukon Territory were tested by surface diamond drilling. The most important results were produced by trenching and drilling on the Hart silver property and by drilling on the Pistol Lake gold property. In 1986, underground exploration and diamond drilling will further outline and increase the reserves of silver and gold mineralized material on the Hart and Pistol Lake properties.

On the Hart silver property near Rancheria in the southern part of the Yukon Territory extensive trenching confirmed the continuity of silver-lead-zinc mineralization along the TM and FM zones. A surface diamond drilling program totalling 11,956 feet greatly increased our knowledge of the vein system and enabled us to calculate a drill-indicated ore reserve. As a result of this work it was decided to build an access road and to commence a program of underground exploration development in the latter part of the year. At the present time the underground exploration work is in full progress and to date important results were obtained with regard to the silver lead zinc zonation patterns on the vein structure, the possible ore grades under mining conditions and general ground conditions. This data is of utmost importance and will form the basis for future development work. While only some assay results from the underground work are available it is apparent that a major ore shoot was encountered on the TM zone which plunges southwesterly. Underground sampling indicates grades to 144 ounces silver per ton over a 4 foot width. The continuing underground exploration development work, supported by diamond drilling aims to define an economic ore reserve, to determine mining conditions and to produce bulk samples for metallurgical test work thus providing the basis for a feasibility study and a production decision. An important part of our 1986 exploration program is the further evaluation of the nearby FM, SM and LM vein zones which are potential sources of additional ore reserves.

On the Pistol Lake property near Wilberforce Falls in the Northwest Territories an intensive diamond drilling program was carried out during the year totalling 18,143 feet. The most important discovery of this program was that the F-zone is part of a large, overturned synclinal fold and, equally important, that the G-zone represents an additional new gold bearing horizon again folded into an overturned syncline. Results clearly show that gold mineralization within the F-zone iron formation is best developed in secondary folds with amplitudes of 165 to 400 feet and that the mineralization is continuous downplunge along these folds. Additional diamond drilling downplunge is warranted to increase reserves and to test for increasing grades and widths. An important observation was that increased widths of the mineralized zones are always accompanied by increased gold content. On the G-Zone, drill results show a remarkable continuity of gold mineralization in the stratigraphic interval underlying the oxide facies iron formation. The best widths and gold grades occur in discrete mineralized shoots which apparently follow secondary warps or folds. In order to increase the reserves of gold mineralized material of attractive widths, detailed diamond drilling of individual shoots is envisaged for 1986. It was discovered in the course of the year that the Farney zone, 2000 feet south of the F-zone, represents a secondary fold of 400 feet amplitude, warranting detailed drilling downplunge.

On the Bear property, 70 miles northeast of Yellowknife, near Sunset Lake diamond drilling intersected significant widths of gold mineralized material in two holes. The gold mineralization is associated with siliceous tuffs alongside a sulfide facies iron formation. The best intersections cut 0.199 ounces of gold over 9.3 feet and 0.309 ounces of gold over 5.7 feet. Additional drilling is warranted to further expand on this interesting gold mineralized zone. Results are considered as highly significant because they indicate the presence of gold grades and widths that will become economical if a sufficient tonnage can be outlined.

On the Lucky property near the old Sunset Mine diamond drilling showed good continuity of geochemically anomalous gold values along the Alice sheared quartz-sericite-pyrite bearing horizon. Similar parallel zones are known to exist on the property. The next move is to evaluate the strike extension of the Alice and similar horizons, and to test the gold mineralized sections by diamond drilling.



FINANCIAL REVIEW

This section is intended to be read in conjunction with the financial statements and notes thereto for the year ended December 31, 1985 which are presented in the following pages.

FINANCING

The Company is in the development stage; it has no operations at this time and its income is limited to interest received on funds invested and management fees. Such income amounted to \$146,664 in 1985 and \$141,066 in 1984. Exploration activities and property acquisitions carried on since inception have been funded through private and public share offerings. These offerings amounted to \$5,035,600 in 1985, \$1,300,914 in 1984 and \$1,112,251 in 1983. The 1985 issues were as follows:

	<u>Number</u>	<u>Amount</u>
Common shares issued for property	244,500	\$1,075,700
Common shares issued for cash	226,000	474,600
Common shares issued for exploration costs	524,650	3,485,300
	995,150	\$5,035,600

Shares issued for cash arose through exercise of outstanding options at a price equal to that of the public issue in April, 1984. Shares issued for exploration costs are the so-called 'flow-through' shares which have been of great assistance to the Canadian mining industry in recent years.

EXPENDITURES

The Company's policy is to maximize the amount of funds applied to exploration and development and to minimize administrative costs. Cash expenditures in 1985 were as follows:

Operations (after applying interest and fee income of \$146,664)	\$ 281,427
Purchase of Fixed Assets	\$ 61,746
Exploration and Development Costs	\$4,716,839
TOTAL:	\$5,060,012

PROPERTY AGREEMENTS

Two option agreements were entered into in 1985; the Sunset Lake Properties were optioned to Ark La Tex Industries Ltd. of Vancouver, and the Warner Property was optioned to Vanstates Resources Ltd., also of Vancouver. The Sunset Lake agreement requires Ark La Tex to spend \$700,000 of recordable work on the property within 3 years to earn a 60% interest. Silver Hart will manage the exploration work and will receive a management fee. In the first 12 months, a minimum of \$250,000 of such work is to be performed.

The Warner agreement requires Vanstates to spend \$3,000,000 of recordable work on the property within 4 years, and to make all cash payments due to the original Optionor in order to earn a 60% interest. At closing of the agreement, Vanstates reimbursed Silver Hart \$140,000, being the sum of cash payments made to that date to the original Optionor by Silver Hart. Silver Hart will manage the exploration work and will receive a management fee. In addition, the agreement provides for sharing of aviation and other support costs in the Bathurst Inlet area where practicable.

Each of these agreements reflects the Company's policy on properties which are not considered first priority of having exploration funds expended by others, while retaining a substantial interest if they should become commercial mines.

FINANCIAL CONDITION

The financial condition of the Company remained strong in 1985 with the treasury having not less than \$1,000,000 of net cash and equivalents throughout the year. The Company has no long-term debt, and uses banking facilities only to optimize the use of term deposits.

SILVER HART MINES LTD.

(incorporated under the laws of Alberta)

(a corporation in the development stage)

BALANCE SHEET AS AT DECEMBER 31, 1985

ASSETS

	<u>1985</u>	<u>1984</u>
CURRENT ASSETS		
Cash and term deposits	\$ 1,540,604	\$ 1,363,209
Accounts receivable	<u>505,480</u>	<u>11,555</u>
	<u>2,046,084</u>	<u>1,374,764</u>
TRUST ASSET (note 2)	<u>300,000</u>	<u>—</u>
FIXED ASSETS (note 3)		
Equipment	83,687	21,941
Less accumulated depreciation	<u>28,691</u>	<u>7,714</u>
	<u>54,996</u>	<u>14,227</u>
DEFERRED EXPLORATION AND DEVELOPMENT COSTS (note 4 and schedule)	<u>6,169,126</u>	<u>1,435,047</u>
	<u>\$ 8,570,206</u>	<u>\$ 2,824,038</u>

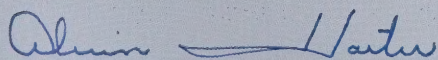
LIABILITIES

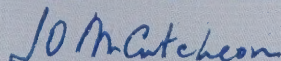
CURRENT LIABILITIES		
Bank loan, bearing interest at term deposit interest rate plus 1%	\$ 465,000	\$ 300,000
Accounts payable and accrued liabilities	<u>698,863</u>	<u>156,323</u>
	<u>1,163,863</u>	<u>456,323</u>
TRUST LIABILITY (note 2)	<u>300,000</u>	<u>—</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 5)	7,678,265	2,642,665
DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	(396,827)	(111,663)
RETAINED EARNINGS (DEFICIT)	<u>(175,095)</u>	<u>(163,287)</u>
	<u>7,106,343</u>	<u>2,367,715</u>
	<u>\$ 8,570,206</u>	<u>\$ 2,824,038</u>

Approved By The Board

 , Director

 , Director

The accompanying footnotes and schedule are an integral part of these financial statements.

SILVER HART MINES LTD.

(a corporation in the development stage)

STATEMENT OF INCOME

	Year Ended December 31		Cumulative Since Inception
	1985	1984	
Income			
Interest	\$ 138,642	\$ 141,066	\$ 307,640
Management fees	8,022	—	8,022
	<u>146,664</u>	<u>141,066</u>	<u>315,662</u>
Expenses			
Accounting	21,160	8,458	31,788
Automotive	21,754	—	21,754
Depreciation	3,737	1,262	5,867
Insurance	25,510	4,012	29,522
Interest and bank charges	20,038	5,739	26,152
Legal	40,744	760	46,264
Listings on exchanges	16,706	38,056	54,762
Miscellaneous	5,943	2,214	9,927
Office	5,015	4,156	9,171
Professional services	25,500	6,400	31,900
Preliminary investigations	22,658	38,661	80,199
Promotion and travel	47,286	32,457	96,699
Rent	9,441	3,668	13,109
Salaries and benefits	128,063	21,558	203,679
Seminars	242	35	3,034
Shareholder communications	19,944	2,497	22,441
Transfer agent	7,179	3,567	10,746
Telephone	10,908	4,567	15,475
	<u>431,828</u>	<u>178,067</u>	<u>712,489</u>
NET INCOME (LOSS)	<u>\$ (285,164)</u>	<u>\$ (37,001)</u>	<u>\$ (396,827)</u>
Net income (loss) per share	<u>\$ (00.061)</u>	<u>\$ (00.008)</u>	

The accompanying footnotes and schedule are an integral part of these financial statements.

SILVER HART MINES LTD.

(a corporation in the development stage)

STATEMENT OF SHAREHOLDERS' EQUITY FROM INCEPTION THROUGH DECEMBER 31, 1985

	Shares		Deficit Accumulated During the Development Stage	Retained Earnings (Deficit)	Total
	Number	Amount			
Common shares issued for cash	1,530,000	\$ 229,500	\$ —	\$ —	\$ 229,500
Net income (loss)	—	—	(1,684)	—	(1,684)
Balance, December 31, 1982	1,530,000	229,500	(1,684)	—	227,816
Common shares issued for cash	1,557,500	1,112,250	—	—	1,112,250
Costs relating to issue of share capital	—	—	—	(61,107)	(61,107)
Common shares issued for property	750,000	1	—	—	1
Net income (loss)	—	—	(72,978)	—	(72,978)
Balance, December 31, 1983	3,837,500	1,341,751	(74,662)	(61,107)	1,205,982
Common shares issued for cash	500,000	1,050,000	—	—	1,050,000
Costs relating to issue of share capital	—	—	—	(102,180)	(102,180)
Common shares issued for exploration costs	87,820	250,914	—	—	250,914
Net income (loss)	—	—	(37,001)	—	(37,001)
Balance, December 31, 1984	4,425,320	2,642,665	(111,663)	(163,287)	2,367,715
Common shares issued for property	244,500	1,075,700	—	—	1,075,700
Common shares issued for exploration costs	2,650	5,300	—	—	5,300
Costs relating to issue of share capital	—	—	—	(11,808)	(11,808)
Common shares issued for cash	226,000	474,600	—	—	474,600
Common shares issued for exploration costs	522,000	3,480,000	—	—	3,480,000
Net income (loss)	—	—	(285,164)	—	(285,164)
Balance, December 31, 1985	<u>5,420,470</u>	<u>\$7,678,265</u>	<u>\$ (396,827)</u>	<u>\$ (175,095)</u>	<u>\$7,106,343</u>

The accompanying footnotes and schedule are an integral part of these financial statements.

SILVER HART MINES LTD.

(a corporation in the development stage)

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31		Cumulative Since Inception
	1985	1984	
CASH PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net income (loss)	\$ (285,164)	\$ (37,001)	\$ (396,827)
Depreciation and amortization	3,737	1,262	5,867
	<u>(281,427)</u>	<u>(35,739)</u>	<u>(390,960)</u>
Changes in non-cash working capital items			
Accounts receivable	(39,575)	(11,555)	(51,130)
Accounts payable and accrued liabilities	(118,127)	102,261	38,196
	<u>(157,702)</u>	<u>90,706</u>	<u>(12,934)</u>
Cash provided by (used in) operating activities	<u>(439,129)</u>	<u>54,967</u>	<u>(403,894)</u>
CASH PROVIDED BY (USED IN)			
INVESTMENT ACTIVITIES			
10% Employee loan receivable	—	10,408	—
Purchase of fixed assets	(61,746)	(10,343)	(83,687)
Exploration and development costs	(4,510,522)	(1,111,490)	(5,939,985)
Cash provided by (used in) investment activities	<u>(4,572,268)</u>	<u>(1,111,425)</u>	<u>(6,023,672)</u>
CASH PROVIDED BY (USED IN)			
FINANCING ACTIVITIES			
Issue of share capital	5,035,600	1,300,914	7,678,265
Costs relating to issue of share capital	(11,808)	(102,180)	(175,095)
Cash provided by financing activities	<u>5,023,792</u>	<u>1,198,734</u>	<u>7,503,170</u>
INCREASE IN CASH	12,395	142,276	\$ 1,075,604
Cash at beginning of year	<u>1,063,209</u>	<u>920,933</u>	<u> </u>
CASH AT END OF YEAR	<u>\$ 1,075,604</u>	<u>\$ 1,063,209</u>	
Cash comprised of			
Cash and term deposits	\$ 1,540,604	\$ 1,363,209	
Bank loans	(465,000)	(300,000)	
	<u>\$ 1,075,604</u>	<u>\$ 1,063,209</u>	

The accompanying footnotes and schedule are an integral part of these financial statements.

SILVER HART MINES LTD.
(a corporation in the development stage)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1985

1. ACCOUNTING POLICIES

a) Accounting authoritative guidelines

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Financial statements are also in conformity, in all material respects, with accounting principles generally accepted in the United States.

Disclosure of financial information has been provided in accordance with requirements for corporations in the development stage as stipulated by Financial Accounting Standards Board Statement 7.

All figures are reported in Canadian dollars.

b) Fixed assets

Fixed assets are recorded at cost. Depreciation is provided using the diminishing balance basis at the following annual rates:

Automotive equipment	30%
Camp and mining equipment	30%
Office equipment	20%

Leasehold improvements are amortized on a straight-line basis over the life of the lease and one renewal period.

c) Deferred exploration and development costs

Exploration and development costs, including costs of acquisition of mineral claims, are capitalized to the date of commercial production and thereafter will be depleted on the unit-of-production basis. The costs of abandoned properties will be charged to income in the year they are abandoned.

d) Cost of acquisition of mineral claims

The cost of acquisition of mineral claims for consideration other than cash will be determined as follows:

- i) for property — at the estimated fair market value of the property exchanged for the mineral claim;
- ii) for shares of the company issued to non-related parties — at the quoted market price of the shares on the later date of approval for issue by regulatory authorities and actual issue date; and
- iii) for shares of the company issued to related parties — at the estimated fair market value of the mineral claim, if readily determinable, or a nominal value of \$1.

e) Net income per share

Net income per share is calculated using the weighted average number of shares outstanding during the year.

2. TRUST ASSET AND TRUST LIABILITY

Pursuant to a private placement the company sold 15 units at \$20,000 per unit. Each unit provides the unitholder the right to earn 1,125 common shares of the company if \$20,000 is expended as qualified exploration expenditures on mineral claims of the company. Pursuant to the offering memorandum the company is the agent for the unitholders. Accordingly the unitholders have deposited funds with the company which the company accounts for as a trust liability of \$300,000 until the conditions of the offering memorandum have been completed at which time the units will be converted to shares of the company. The company anticipates converting the units to shares on or before February 28, 1986.

Cash and expenditures of these funds are accounted for by the company as trust assets of \$300,000 until the total cash has been expended and the units are converted to shares.

3. FIXED ASSETS

	1985			1984
	Cost	Accumulated Depreciation	Net	Net
Automotive equipment	\$26,465	\$ 7,940	\$18,525	\$ —
Camp and mining equipment	37,446	15,746	21,700	9,001
Office equipment	16,499	4,172	12,327	4,337
Leasehold improvements	3,277	833	2,444	889
	<u>\$83,687</u>	<u>\$28,691</u>	<u>\$54,996</u>	<u>\$14,227</u>

Depreciation expense for the year is \$20,977 (\$5,118 in 1984).

4. DEFERRED EXPLORATION AND DEVELOPMENT COSTS

Deferred exploration and development costs include expenditures on the following mineral claims.

a) AAH, HOOD and TURNER Claims

These claims were staked and registered by the company.

b) MATE Claims

These claims were acquired by the company from a non-related party under an option agreement requiring the company to undertake \$98,500 in diamond drilling and make a cash payment of \$130,000. The company has complied with the conditions of the option agreement and the claims have been registered in the name of the company.

c) BEAR Claims

These claims were acquired from the President and Chief Executive Officer of the company for 750,000 common shares. These claims are registered in the name of the company, are recorded at a nominal value of \$1 and are subject to the SUNSET LAKE Properties option agreement (see h below).

d) G & T Claims

Pursuant to an agreement dated January 27, 1984, the company, in consideration for \$20,000, received from a non-related party an option to acquire these claims for \$475,000 plus 100,000 common shares of the company. The initial option which expired January 9, 1985, was extended to January 9, 1987 by additional option extension payments of \$40,000 and \$80,000. The option can be further extended from January 9, 1987 to January 9, 1988 by an option extension payment of \$160,000.

Payments to extend the option plus the initial payment of \$20,000 will be applied to the purchase price if the option is exercised.

On December 18, 1985, the company granted an option to Vanstates Resources Ltd. to earn up to a 60% interest in the property by providing to the company \$475,000, being the aggregate of cash payments required pursuant to the original option to company, and spending \$3,000,000 on the property as follows:

	Cash To The Company	Recordable Work On Property
i) Payment upon execution	\$140,000	\$ —
ii) Payment by December 1, 1986	160,000	—
iii) Spending by December 31, 1986	—	263,000
iv) Payment and spending by December 31, 1987	175,000	387,000
v) Spending by December 31, 1989	—	2,350,000
	<u>\$475,000</u>	<u>\$3,000,000</u>

Lesser interests can be earned by

- i) making all the above payments and expenditures to December 31, 1987, and
- ii) spending recordable work on the property of

\$1,200,000 for a 20% interest,
 \$1,900,000 for a 33.3% interest, or
 \$2,500,000 for a 46.7% interest.

The company can retain its 40% working interest in the property or can convert it to a 20% net profit interest.

The company is to act as Manager of the exploration work for which it is to receive a fee of 10% of funds expended excluding third party contracts, and a fee of 5% of third party contracts.

e) PISTOL LAKE Claims (previously referred to as GOLD FIELD Claims)

Pursuant to an agreement with a non-related party dated July 1, 1984, the company was granted an option to acquire these claims by:

- i) expending \$200,000 in qualified exploration expenditures on the claims on or before July 1, 1985, and
- ii) expending in aggregate (which includes the \$200,000 above) \$2,000,000 in qualified exploration expenditures on the claims on or before July 1, 1989.

Acquisition of the claims was subject to a 2% net smelter return interest granted by the Optionor to a third party and a 20% net profit royalty interest in the claims retained by the Optionor.

During 1985, the company acquired the 2% net smelter return interest for \$20,000 cash plus 40,000 common shares of the company.

In December, 1985, the company acquired the 20% net profit royalty interest in the claims for 67,500 common shares of the company. The shares were acquired from the Optionor by a syndicate of directors of the company for \$10.00 per share, being \$2.00 below the listed market value at December 31, 1985, but equivalent to the market value at the date of acquisition being February 4, 1986. The company provided a demand, non-interest bearing loan of \$375,000 to the syndicate to enable the acquisition of the shares.

As at December 31, 1985, the company has expended \$1,988,670 in qualified expenditures on the claims.

f) LUCKY Claims

Pursuant to an agreement dated July 5, 1984, the company, in consideration for \$5,000 plus 2,000 common shares of the company, received from a non-related party an option to acquire these claims for 10,000 common shares of the company.

During the year, the company issued the 10,000 common shares thereby acquiring the claims.

These claims are subject to the SUNSET LAKE Properties option agreement (see h below).

g) HART Claims

The company and Shawkak Exploration Company Limited, in consideration of \$50,000 paid by the company, 100,000 common shares of the company issued to the Optionors, and 25,000 shares of the company issued to Shawkak Exploration Company Limited, received an option to acquire these claims by:

- i) the company expending \$25,000 on or before May 1, 1985 on a road to the claims,
- ii) the company expending \$50,000 on recordable work on the claims on or before August 1, 1985,
- iii) the company paying \$100,000 and Shawkak Exploration Company Limited providing 100,000 of its shares or \$100,000 to the Optionors on or before October 31, 1985,
- iv) the company expending \$200,000 on exploration work on the property on or before October 31, 1985,
- v) the company paying \$100,000 and Shawkak Exploration Company Limited providing 50,000 of its shares or \$75,000 to the Optionors on or before October 31, 1986,
- vi) the company expending \$400,000 on exploration work on the property on or before October 31, 1987,
- vii) the company paying \$1,500,000 on or before October 31, 1987 or \$600,000 on or before October 31, 1987 and providing irrevocable commitments to pay \$600,000 on or before October 31, 1988 and \$600,000 on or before October 31, 1989, and
- viii) the Optionors retaining the ore from an area of the TM Zone being 300 feet long, 100 feet wide and 30 feet deep.

The agreement provides that in the event that either the company or Shawkak Exploration Company Limited default on their obligations, the other party may assume the defaulted obligation to maintain the option agreement.

Upon exercise of the option pursuant to the preceding conditions, the company will have a 100% interest in the claims and an 80% interest in Net Profits with Shakwak Exploration Company Limited having a carried and non-assessable 20% Net Profit Interest.

Upon the company publicly announcing that it intends to place the claims into commercial production, Shakwak Exploration Company Limited will convert its carried and non-assessable 20% Net Profit interest to a 20% working interest. At any time up to 180 days after the company's public announcement, the company may acquire up to 10 percentage points of Shakwak Exploration Company Limited's working interest by paying \$100,000 for each percentage point acquired.

On January 17, 1986, the Optionors and the company agreed to the following additional terms to the original option agreement.

On or before September 30, 1987 Silver Hart Mines Ltd. will mine and mill the ore from the area of the TM Zone retained by the Optionors and will pay to the Optionors the "net smelter returns" therefrom on or before December 31, 1987.

Pursuant thereto the company will make a recoverable advance payment of \$1,200,000 payable as follows:

- i) \$350,000 on execution,
- ii) \$500,000 as a non-interest bearing loan to enable the Optionors to acquire 60,000 common shares of the company, and
- iii) \$350,000 on or before May 1, 1986.

When the Optionors' ore is sold the company is entitled to recover from the proceeds:

- i) the advance payment of \$1,200,000,
- ii) accrued interest on \$700,000 at the prime interest rate plus 1%, and
- iii) mining and milling costs to a maximum of \$150 per ton, smelter and refining charges, and transportation costs.

h) SUNSET LAKE Properties

During the year the company granted an option to Ark La Tex Industries Ltd. (Ark La Tex) on its properties known as Sunset Lake Properties which comprise the BEAR Claims and LUCKY Claims. Ark La Tex can earn a 60% interest in the properties by expending a minimum of \$700,000 of qualified expenditures or a 20% carried interest in the properties by spending \$500,000 of qualified expenditures on or before July 1, 1988. The company is to be the manager of the exploration for which it will receive a management fee of 10% of expenditures, excluding third party contracts.

5. SHARE CAPITAL

At the annual meeting of the shareholders the authorized share capital was changed
FROM

Unlimited Class "A" voting shares to be issued in series without par value

TO

Unlimited common voting shares without par value

Unlimited first preferred non-voting shares without par value, stated issue price of \$10 per share, to be issued in series, with rights, privileges, restrictions and conditions to be determined by Directors' resolution prior to issue

Unlimited second preferred non-voting shares without par value, stated issue price of \$10 per share, to be issued in series with rights, privileges, restrictions and conditions to be determined by Directors' resolution prior to issue.

Pursuant to this change all shares issued in Series 1A through 6A were changed to common shares.

	Number <u>Issued</u>	<u>Consideration</u>			
		<u>Total</u>	<u>Cash</u>	<u>Property</u>	<u>Services</u>
Issued at December 31, 1984	4,425,320	\$2,642,665	\$2,391,750	\$ 250,915	\$ —
Issued during the year					
Pursuant to HART option (\$2.00 per share)	100,000	200,000	—	200,000	—
Pursuant to 2% net smelter return of PISTOL LAKE claims (\$2.00 per share)	40,000	80,000	—	80,000	—
For services on claims (\$2.00 per share)	2,650	5,300	—	—	5,300
Pursuant to LUCKY option (\$2.85 per share)	2,000	5,700	—	5,700	—
Pursuant to HART option (\$2.60 per share)	25,000	65,000	—	65,000	—
Pursuant to LUCKY option (\$5.00 per share)	10,000	50,000	—	50,000	—
Pursuant to exercise of stock option (\$2.10 per share)	226,000	474,600	474,600	—	—
Pursuant to private placement (\$6.67 per share) (see below)	522,000	3,480,000	—	3,480,000	—
Pursuant to acquisition of 20% net profit royalty interest of PISTOL LAKE claims (\$10.00 per share)	67,500	675,000	—	675,000	—
Issued at December 31, 1985	<u>5,420,470</u>	<u>\$7,678,265</u>	<u>\$2,866,350</u>	<u>\$4,806,615</u>	<u>\$ 5,300</u>

In April, 1985, pursuant to a private placement, the company sold 116 units at \$30,000 per unit. Each unit provided the unitholder the right to earn 4,500 common shares of the company if \$30,000 was expended as qualified exploration expenditures on mineral claims of the company. As the company, as agent for the unitholders, has expended the funds on qualified exploration expenditures, the units were converted to common shares.

Of the issued and outstanding shares

- i) 1,042,250 Common shares of the company have been placed in escrow and may not be released without the prior written consent of the Director of the Alberta Securities Commission,
- ii) 750,000 Common shares of the company have been placed in escrow and may not be released without the prior written consent of the Director of the Alberta Securities Commission,
- iii) 226,000 Common shares of the company issued pursuant to the stock option to directors and an employee have been pooled for a period of two years to September 30, 1987, and
- iv) 522,000 Common shares of the company may not be transferred by the original owners of the shares until dates varying from May 1, 1986 to August 1, 1986.

Pursuant to the HART claim agreement of January 17, 1986 the following shares were issued subsequent to December 31, 1985.

<u>Description of Share</u>	Number <u>Issued</u>	<u>Consideration</u>	
		<u>Total</u>	<u>Cash</u>
Common shares	<u>60,000</u>	<u>\$500,000</u>	<u>\$500,000</u>

Share options have been granted as follows:

	Number of Common Shares
Outstanding at December 31, 1984	226,000
Granted	90,000
Exercised	(226,000)
Outstanding at December 31, 1985	<u>90,000</u>

Outstanding at December 31, 1985

Party To Whom Granted	Expiry Date	Price Per Share	Number of Common Shares
Employee	August 27, 1986	\$15.635	20,000
Employee	December 9, 1986	\$13.50	20,000
Specified Directors	December 9, 1986	\$13.50	<u>50,000</u>
			<u>90,000</u>

Stock options outstanding at December 31, 1984 for 216,000 common shares to Directors due to expire on March 31, 1985 were extended to September 30, 1985 and exercised by the Directors at that date.

6. INCOME TAXES

The company has losses carried forward for income tax purposes in the amount of \$981,263. These losses are deductible against future taxable incomes as follows:

<u>Deductible until</u>	<u>Amount</u>
December 31, 1987	\$ 1,684
December 31, 1990	133,217
December 31, 1991	138,025
December 31, 1992	<u>708,337</u>
	<u>\$981,263</u>

Losses carried forward of \$420,700 have been reflected in these financial statements by offsetting deferred tax credits of the same amount. The income tax effect of the balance of these losses carried forward has not been reflected in these financial statements.

7. RELATED PARTY TRANSACTIONS

During the year the company undertook the following transactions with related entities.

<u>Entity</u>	<u>Nature of Transaction</u>
Company related to President and Secretary-Treasurer	\$1,375,157 was paid for drilling with \$167,986 being included in accounts receivable and \$417,492 being included in accounts payable.
Public company in which President and Secretary-Treasurer are directors and own 6.1% of outstanding shares	Option for SUNSET LAKE Properties was granted (see note 4(h)).

Public company in which President and the Secretary-Treasurer own 9.6% of outstanding shares and the Secretary-Treasurer is a director

Option for G & T claims was granted (see note 4(d)).

Syndicate owned by majority of Directors

Reacquisition of 67,500 common shares from the Optionor with a loan of \$375,000 being granted subsequent to December 31, 1985 for the acquisition of the shares (see note 4 (e)).

8. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration paid to officers during the year was \$100,000 (\$0 in 1984). No remuneration was paid to directors in their capacity as directors.

SCHEDULE OF DEFERRED EXPLORATION AND DEVELOPMENT COSTS YEAR ENDED DECEMBER 31, 1985

	1985								1984		Cumulative Since Inception
	AAH Claims	MATE Claims	BEAR Claims	G & T Claims	PISTOL LAKE Claims	LUCKY Claims	HART Claims	HOOD and TURNER Claims	Total	Total	
Acquisition	\$ 4,444	\$ 4,444	\$ —	\$ (60,000)	\$ 781,268	\$ 55,700	\$ 380,366	\$ —	\$1,157,334	\$ 115,000	\$1,402,335
Exploration											
Assays	—	—	—	183	13,742	—	44,433	—	58,358	26,627	91,636
Depreciation	—	—	—	—	8,620	—	8,620	—	17,240	3,856	22,822
Diamond drilling	—	—	—	—	1,126,503	—	472,887	—	1,599,390	657,337	2,355,227
Expediting and transportation	—	495	—	11,175	222,596	—	186,362	—	420,628	71,862	535,206
Exploration access	—	—	—	—	—	—	465,197	—	465,197	—	465,197
Food and accommodations	—	58	—	7	12,042	—	6,963	—	19,070	11,118	30,188
General	—	—	—	—	2,632	—	2,114	—	4,746	827	7,550
Geophysical surveys	—	1,851	—	—	9,251	—	—	—	11,102	46,848	57,950
Legal	—	2,210	—	—	—	—	17,558	—	19,768	727	21,866
Linecutting	—	—	—	—	—	—	15,260	—	15,260	—	15,260
Photographs	—	—	—	—	474	—	8,683	—	9,157	828	11,467
Salaries, wages and benefits	—	2,911	—	1,179	110,525	—	145,963	—	260,578	107,038	368,816
Site access	—	—	—	—	—	—	550,567	—	550,567	—	550,567
Staking	—	(175)	—	327	1,767	—	41,041	3,440	46,400	58,933	132,767
Supplies	38	403	—	355	41,240	—	37,248	—	79,284	14,347	100,272
	38	7,753	—	13,226	1,549,392	—	2,002,896	3,440	3,576,745	1,000,348	4,766,791
	\$ 38	\$ 7,753	\$ —	\$ (46,774)	\$2,330,660	\$ 55,700	\$2,383,262	\$ 3,440	\$4,734,079	\$1,115,348	\$6,169,126

AUDITORS' REPORT

To The Shareholders of
Silver Hart Mines Ltd.

We have examined the balance sheet of Silver Hart Mines Ltd. (a corporation in the development stage) as at December 31, 1985 and December 31, 1984 and the statements of income, shareholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The company, as a development stage company, capitalizes costs incurred to explore and develop its mineral properties until the mineral properties are explored to a point where it has been determined that the mineral properties are capable of being economically developed through assessable exploration results or measurable reserves. Until this determination has been made, it is impractical to assess the realization of exploration and development costs capitalized to the mineral properties.

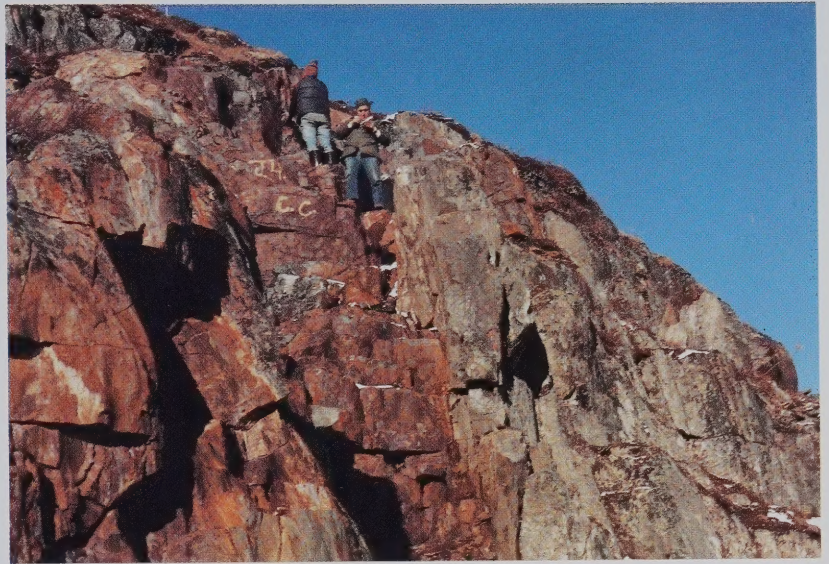
In our opinion, except for effects, if any, of the inability to assess realization of exploration and development costs capitalized as referred to in the previous paragraph, these financial statements present fairly the financial position of the company as at December 31, 1985 and December 31, 1984 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles of Canada applied on a basis consistent with that of the preceding year.

Kouri Berezan Heinrichs

Edmonton, Canada
February 17, 1986

Chartered Accountants

Turner Lake: main gold showing



Hart Silver: scooptram in operation



Pistol Lake: drill core examination by Consulting Engineer



SILVER HART'S AREAS OF INTEREST



DIRECTORS AND MANAGEMENT

Alvin Harter	President and Chief Executive Officer and Director
John McCutcheon	Vice-President, Secretary, Chief Financial Officer and Director
Steve Dudelzak Calgary, Alberta	Director
George Grumieaux New York, New York	Director
Robert Lee Vancouver, B.C.	Director
Walter Protsack Rocky Mountain House, Alberta	Director
Richard Ray Los Angeles, California	Director
Jack Sheckter Edmonton, Alberta	Director
Eckart Buhlmann	Chief Geologist

TRANSFER AGENTS

Registrar and Transfer Agent is Canada Trust Company at principal offices in Calgary, Vancouver and Toronto.

AUDITORS

Kouri Berezan Heinrichs
Edmonton, Alberta

CORPORATE OFFICES

209, 320 Sioux Road
Sherwood Park, Alberta
T8A 3X6

MARKET PRICE OF COMMON SHARES

The common shares of the company are traded on the Vancouver and Alberta Stock Exchanges under the symbol SVM and on NASDAQ under the symbol SVMHF. Trading began on May 15, 1984.

1984	High	Low
Second Quarter	\$1.90	\$1.20
Third Quarter	\$1.92	\$1.00
Fourth Quarter	\$2.00	\$1.25
1985		
First Quarter	\$5.125	\$1.85
Second Quarter	\$19.125	\$4.75
Third Quarter	\$19.00	\$11.75
Fourth Quarter	\$17.50	\$12.00

No dividends have been paid on the common shares.

ANNUAL MEETING OF SHAREHOLDERS

The Company's Annual Meeting of Shareholders will be held on Thursday, May 1, 1986 at the Chateau Lacombe, 10111 Bellamy Hill, Edmonton, Alberta.

